

Message Text

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PAGE 01 JIDDA 01879 110423Z

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

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BEGIN SUMMARY: THE INVESTMENT CLIMATE FOR SAUDI ARABIA HAS IMPROVED MARKEDLY IN PAST YEAR WITH NEW PRIORITY GIVEN INDUSTRIALIZATION AND EXTENSIVE NEW RESOURCES CHanneled INTO INCENTIVES FOR INDUSTRY LARGE AND SMALL. NEW CAPITAL FLOWS INTO SAUDI ARABIA COULD EXCEED TWO BILLION A YEAR IN NEXT FEW YEARS IN THE FULL RANGE OF INDUSTRIES. TIE BETWEEN AVAILABILITY OF CRUDE AND ASSISTANCE ON INDUSTRIAL AND AGRO-INDUSTRIAL DEVELOPMENT IS SINGLE GREATEST INCENTIVE FOLLOWED BY AVAILABILITY OF LOW-COST OR NO-COST FINANCIAL RESOURCES FOR INDUSTRIALIZATION OF THE KINGDOM AND NEARBY ARAB STATES. MUCH REMAINS TO BE DONE IN CREATING

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PAGE 02 JIDDA 01879 110423Z

SPECIAL ARRANGEMENTS FOR IMPLEMENTING BROAD GOVERNMENT

POLICIES IN THE AREA OF FOREIGN INVESTMENT, BUT BOTH INVESTMENT AND REVERSE INVESTMENT ARE OF KEY IMPORTANCE TO THE SAUDI GOVERNMENT.

WITH THE NEW ECONOMIC COMMISSION TO BE ESTABLISHED BY THE UNITED STATES TO SPEED THE DEVELOPMENT OF THE KINGDOM OF SAUDI ARABIA AND OTHER RELATED AGREEMENTS, THE CLIMATE FOR INVESTMENT IS THE BEST IN THE MIDDLE EAST. END SUMMARY

1. THE CLIMATE FOR FOREIGN INVESTMENT IN SAUDI ARABIA HAS IMPROVED SHARPLY DURING THE PAST YEAR WITH THE ADOPTION OF A DELIBERATE AND MASSIVE POLICY OF ENCOURAGING THE INDUSTRIALIZATION OF THE KINGDOM BY ALL MEANS POSSIBLE. THE GOVERNMENT HAS GIVEN INDUSTRIALIZATION, INCLUDING AGRO-INDUSTRIAL EFFORTS, FIRST PRIORITY, LINKING SUCH AN EFFORT WITH THE SUPPLY OF CRUDE OIL. AS A RESULT, THE NUMBER OF JOINT-VENTURE PROJECTS PROPOSED BOTH IN THE PRIVATE SECTOR AND ESPECIALLY IN THE GOVERNMENT SECTOR HAVE INCREASED ASTRONOMICALLY.

2. THE ANNOUNCEMENT OF A NEW AGREEMENT BETWEEN THE UNITED STATES AND SAUDI ARABIA ON APRIL 5, 1974, ESTABLISHING CLOSE COOPERATION IN THE ECONOMIC, SCIENTIFIC, AND TECHNICAL AND DEFENSE FIELDS IS EXPECTED TO HAVE A HIGHLY FAVORABLE IMPACT ON THE SAUDI GOVERNMENT AND ITS INTEREST IN CREATING THE MOST FAVORABLE POSSIBLE CLIMATE FOR FOREIGN INVESTMENT. NOT LIMITING THE SAUDI CHOICE TO U.S. FIRMS, THE NEW AGREEMENT IS NEVERTHELESS EXPECTED TO HAVE AN EQUALLY FAVORABLE IMPACT ON THE INTEREST OF U.S. FIRMS IN INVESTING IN THE KINGDOM.

3. IT IS ESTIMATED THAT SOME THREE BILLION DOLLARS WORTH OF PROJECTS, ALL INVOLVING DIRECT FOREIGN INVESTMENT IN THE KINGDOM, HAVE BEEN PROPOSED IN THE PAST YEAR. THIS INCLUDES SOME 200 PROPOSALS FROM THE WORLD'S LEADING HYDRO-CARBON COMPANIES. OVER HALF OF THE PROPOSALS ARE BELIEVED TO BE FROM AMERICAN COMPANIES. AS MUCH AS TWO BILLION DOLLARS A YEAR WORTH OF

UNCLASSIFIED

PAGE 03 JIDDA 01879 110423Z

NEW INVESTMENT IN SAUDI ARABIA IS FORESEEN.

4. ACTUAL EXPENDITURE OF DEVELOPMENT FUNDS FOR OIL PRODUCTION DURING 1974 ARE ESTIMATED TO EXCEED THREE-QUARTERS OF A BILLION DOLLARS, THREE-FOURTHS OF IT IN DIRECT FOREIGN INVESTMENT BY THE AMERICAN PARENTS OF THE ARABIAN AMERICAN OIL COMPANY (ARAMCO). THIS FLOW IS EXPECTED TO CONTINUE INDEFINITELY INTO THE FUTURE

AIMED AT INCREASING THE OIL PRODUCING CAPACITY OF THE COUNTRY.

5. THE GOVERNMENT ATTITUDE CAN BE SUMMARIZED AS FOLLOWS: ANYONE IS WELCOME TO PROPOSE AN INDUSTRIAL VENTURE WITHIN THE KINGDOM. PROPOSALS SHOULD HAVE CLEAR AND FAVORABLE COST-BENEFIT RATIOS AND PREFERABLY INCLUDE SAUDI PRIVATE SECTOR PARTICIPATION. THEY SHOULD NOT INCREASE THE COSTS OF THE FINAL PRODUCT TO THE SAUDI CONSUMER AND FAVORABLE INVESTMENT INCENTIVES WILL BE NEGOTIATED. THEY SHOULD BE CAPITAL AND NOT LABOR INTENSIVE IN NATURE, TAKING INTO ACCOUNT THE CRUCIAL LACK OF TRAINED MANPOWER IN THE COUNTRY. THEY SHOULD INCLUDE A MINIMUM OF TWENTY-FIVE PERCENT CAPITAL PARTICIPATION BY THE FOREIGN FIRM TO ASSURE ITS INTEREST IN THE SUCCESS OF THE VENTURE. THEY SHOULD TRY TO SATISFY A NEED FOR THE PRODUCT WITHIN THE COUNTRY, BUT THE GOVERNMENT RECOGNIZES THAT THE ECONOMIC SCALE OF MOST PLANTS WILL REQUIRE EXPORT-ORIENTED INDUSTRIES, SO THAT MARKET ACCESS OUTSIDE THE COUNTRY IS IMPORTANT.

6. THE GOVERNMENT HAS ADOPTED A BRIEF AND FORMAL NEW INDUSTRIAL POLICY STATEMENT (REFAIRGRAM) THAT PLACES GREAT EMPHASIS ON DIVERSIFICATION OF THE SAUDI ECONOMY AND PROMISES THE PRIVATE SECTOR THE FULL BACKING OF THE SAUDI GOVERNMENT IN ANY INDUSTRIAL VENTURE THAT MAY BENEFIT THE NATIONAL ECONOMY.

7. WHAT GIVES THIS STATEMENT SPECIAL IMPORTANCE IS THAT THE RESOURCES OF THE SAUDI GOVERNMENT, ONCE MEASURED IN THE HUNDRED OF MILLIONS OF DOLLARS, WILL SOON BE MEASURED IN THE TENS OF BILLIONS.

UNCLASSIFIED

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PAGE 04 JIDDA 01879 110423Z

8. THE SAUDI GOVERNMENT TOOK ANOTHER STEP IN MARCH 1974, ESTABLISHING AN INDUSTRIAL DEVELOPMENT FUND WHICH WILL OFFER TWENTY-FIVE PERCENT OF TOTAL CAPITAL AND FINANCIAL NEEDS OF NEW ENTERPRISES IN LONG-TERM LOANS WITHOUT INTEREST. THE NEW FUND, WHOSE WORKING RULES AND ORGANIZATION STILL HAVE TO BE ESTABLISHED, SHOULD BE IN OPERATION WITHIN THE YEAR. IT IS EXPECTED THAT THIS ONE PRACTICAL STEP ALONE WILL INCREASE THE NUMBER OF VIABLE PROJECTS IN THE KINGDOM SEVERAL FOLD.

9. INVESTMENT STATISTICS:

A. TOTAL U.S. DIRECT INVESTMENT: TWO BILLION DOLLARS

B. MINING AND SMELTING: LESS THAN ONE MILLION DOLLARS

C. PETROLEUM: TWO BILLION DOLLARS

D. MANUFACTURING: \$500.000

10. DIRECT INVESTMENT BY ALL COUNTRIES:

TOTAL INCLUDING U.S.: 2.5 BILLION DOLLARS

OTHER COUNTRIES (TOP THREE) JAPAN 250 MILLION,

GERMANY 50 MILLION, UNITED KINGDOM 25 MILLION

11. DIRECT INVESTMENT IN THE U.S. BY SAUDI ARABIA:

GOVERNMENT (ESTIMATED): \$500 MILLION IN BONDS; \$3

BILLION IN BANK DEPOSIT CERTIFICATES. PRIVATE: \$50 MILLION.

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